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Accounting Practice In England and America*

BY HAROLD R. CAFFYN

I need hardly say how much I appreciate the invitation extended to me to address this of all gatherings of accountants in this country upon a subject which has been of tremendous interest to me during my five or six years of public practice here. Nothing, perhaps, has impressed me more than the openmindedness of the people here, their desire to hear of and their ability to benefit from the experiences of others. It is with these qualities in mind that I address you, well knowing that if I speak of matters on which I think something could be learned from English practice rather than of those on which this country is undoubtedly ahead, you will not accuse me of prejudice but rather of a desire to furnish you with what I think will interest you most.

First it must be understood that public accounting in Great Britain is accepted without question as one of the leading professions and enjoys a prestige similar to that attaching, for instance, to the law, the church and medicine. Those engaged in it consist of three principal classes: first, the so-called qualified men, sometimes employees but generally employers; second, clerks articled to qualified men and non-articled clerks in the offices of qualified men.

Although other bodies do exist, I might safely say that for practical purposes all qualified men are members of one or two bodies: the Institute of Chartered Accountants, founded by royal charter in 1880 and having approximately 9,000 members, and the Society of Incorporated Accountants and Auditors, a body registered under the companies act in 1885 and having approximately 5,000 members. The customary degree in these bodies is termed associateship while a further degree of fellowship is available to those who have been in practice for themselves in Great Britain for more than a certain number of years.

Admission into these bodies can only be obtained by articled clerks, with the exception that a man who has been in public practice for ten years may sit for the Incorporated examinations. Each member in practice for himself or in a partnership is per-

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mitted to have two articulated clerks. These articulated clerks are frequently the sons of personal friends or of clients. They are, generally speaking, men of the most desirable type from the professional viewpoint.

Articles consist of a contract between employer and clerk. This contract is of five years' duration, although college graduates may obtain three-year articles. The articles provide that the clerk shall serve his principal and the principal will assist the clerk in providing practical experience and instruction. There may be charged for these articles a premium up to \$3,000, of which, generally, about two-thirds is returned during the five years in the form of a nominal salary. On the other hand, a firm wishing to retain a valuable man for five years will sometimes give him articles and pay him his regular salary. Articled clerks frequently go through a month or so of probationary service in order that their principals may obtain some idea as to their desirability.

The organizations sponsor students' societies to assist articulated clerks in their studies. These societies provide quiet rooms for study, coaching courses at extremely reasonable rates and other facilities for students.

There are three examinations to be passed: first, the preliminary, purely scholastic and a prerequisite to articles; second, the intermediate, taken not less than half way through one's articles but before their termination; third, the final, taken at the conclusion of one's articles.

Progress in the office is considerably slower than it is here, and, although the articulated clerk is sometimes a senior by the time he has passed his final, the non-articled man might easily work fifteen years to attain this status. He might, of course, never attain it.

It is perhaps nationally characteristic that the work should be more detailed and that a greater sense of discipline should exist throughout the office than here.

The work itself can be divided into the following main groups:

1. Statutory audits of limited companies
2. Other audits and examinations of limited companies
3. Audits and examinations of partnerships and individual traders
4. Bankruptcies, liquidations and receiverships
5. Estates and trusts

6. Income tax
7. Costing
8. Secretarial work

Much of the work is similar to that here, but certain phases of it require further comment.

The rapid development of mass production in this country has naturally led to a correspondingly rapid development in costing. Recent years, however, have seen a similar development in England and a gradual specializing by certain accountants resulting in the formation of a specialized body—The Institute of Cost and Works Accountants.

Many companies in England use their accountant's office as their registered address. The accountants in these cases frequently have a partner or one of their employees named as secretary, board meetings are held at their office, corporate records are kept there and, in some cases, stock transfers are registered and dividends paid from there. In other cases all the records, corporate and financial, are managed.

Another phase of work of which little is seen here comes largely through the recognition of the profession there. It is quite customary for accountants to be appointed by the courts or by deed as trustees, administrators, executors, liquidators, receivers and managers.

Apart from the above-mentioned differences, however, there is one of even greater significance: it is the statutory audit of limited companies. The statutory audit forms the principal part of the public accountant's practice. It is not a balance-sheet audit but a complete examination and arises through the provisions of the companies act. This act provides that every limited company shall hold at least one general meeting in each calendar year, at which the accounts for the preceding fiscal year are presented. These accounts must be signed by two directors and must contain the auditor's report. This report must be read before the shareholders at the meeting. The act defines the auditor's duties in the broadest possible terms, and the provisions in this respect have, through practice, become incorporated in a form of certificate which, with minor variations, has become practically standard. The usual form of this certificate is as follows:

Report of the auditor to the shareholders of the (Blank) Corporation. We have examined the above balance-sheet and

accompanying profit-and-loss account of the (Blank) Corporation for the year ended . . . and have obtained all the information and explanations we have required. In our opinion, such balance-sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of our information and the explanations given to us and as shown by the books of the company.

You will notice that this report is addressed to the shareholders. This arises from the fact that the auditor is appointed, not by the officers at all, but by the shareholders at the annual general meeting and he is auditing purely in their interests.

Strength is given to the auditor by virtue of the fact that the above certificate has become so well known and recognized in the commercial world. It is a valuable check on the directors, for any qualification of it is calculated to assure a most inquisitive and potentially critical attendance at the annual meeting. Even further strength is given to the auditor by the fact that any proposed change in auditors must be the subject of special notice to the shareholders of the meeting at which the change is to be proposed.

Comparing the actual audit with that here, I think I could best describe it as synthetic rather than analytical. Books of original entry are checked in considerable detail and worked into the ledgers and statements, and there is, accordingly, not so much need for an analysis of figures submitted. I can not help feeling that this is far less inspiring to the auditor, more likely to become mechanical and less likely to develop the intelligent use of one's head and business experience than the method generally followed in this country.

The statutory auditor usually signs the customary certificate. He seldom volunteers any comment on the operating results or financial condition of the company. Here, I think, the English client loses one of the most valuable services rendered by accountants, for I have been particularly impressed with the broad reviews which many accountants render to their clients here. These reviews are occasionally rendered in Great Britain but are usually the result of specially arranged assignments.

Tax returns are rendered throughout the year and for this reason the accountant's work is far less seasonal than here.

The facts that fewer mechanical devices are used and papers sometimes filed in dusty old tin boxes are minor differences.

Reminiscent of the Dickensian age, too, is the fact that all members of the staff in my firm were supposed to wear high hats and that our reports were, until a few years ago, handwritten. One of these old customs, however, that of afternoon tea, I really can commend to you, even if only for the purpose of obtaining a little company myself.

Billing is largely on a per-diem basis, although there is perhaps rather more tendency to charge a fee for work performed. As I recollect it, rates are approximately as follows:

Seniors.....	3	guineas, about \$15.00 a day
Semi-seniors.....	2	“ “ 10.00 “
Juniors.....	1½	“ “ 7.50 “

When the difference in monetary value is taken into consideration it will be realized that these rates differ little from those prevailing here.

There is little outstanding professional legislation which I consider of interest for this paper. The chartered and incorporated accountants coöperate very harmoniously in professional development and their advantage over other bodies is best evidenced by the fact that shareholders seldom appoint accountants outside their ranks as statutory auditors, although no specific bar to others exists. There has been considerable discussion during recent years as to the desirability of effecting legal registration of qualified practitioners and the exclusion from practice of those not registered.

Now that I have given an all too brief outline of the conditions prevailing in England, let us go back and conclude with a consideration of those from which something might be learned here.

First, the students' society. I think that an institute, developing the way ours has, could do quite a lot to maintain the students' interest in it by the sponsorship of a society similar to the students' society in England, which could, perhaps, under the guise of rendering technical assistance in study, actually develop a trend towards professional sentiment and loyalty to the profession at large and to this Institute in particular. This applies especially now that the Institute is doing so much to develop interest in its activities on the part of the more promising products of the colleges here. Through such a society young men, fresh from college, could catch a glimpse of the sound professional de-

velopment which is taking place and would automatically spread this knowledge to their younger friends still at college.

The question of office organization is also one on which I think something might be accomplished. The usual arrangement existing in England has proved to be a satisfactory one there, and I will briefly outline it. We will assume a firm of medium size, having five partners, each dealing principally with the work that he himself brings in, but turning some of this over to his partners. Under these partners will be possibly seven or eight seniors. Each of these men will generally cover work assigned to them by all of the partners, but, of course, a senior may tend to become attached more to the work of one partner than another. Below these seniors will be, say, sixteen or eighteen semi-seniors. Now, these semi-seniors are quite definitely allocated to a certain senior. Similarly the twenty-five or thirty juniors will be definitely allocated to specific semi-seniors.

As a valuable addition to this system I have seen a plan in operation under which the seniors held a monthly meeting for the purpose of discussing the status of their assignments, the relief of overworked men, office problems and the work of the junior members of the staff. The advantages of this system, as I see them, are as follows:

1. There is a continuous process of education going on throughout the office, the senior, himself educated by five partners, teaching his semi-seniors to do their work and submit their working papers in the form which he himself has learned to be most fitted for the task and the office, and, of course, the semi-senior in turn educating the junior in a similar way and finding any time so spent amply repaid.

2. There is a flexibility in the handling of men. Semi-seniors and juniors are lent from senior to senior without having to worry the partners with organizational details which they are so frequently incapable of handling through lack of knowledge of the junior men concerned. Moreover, should a semi-senior or senior be taken sick there is always a man available who knows practically as much about the work involved as the sick man did and who can step into his shoes with little extra supervision.

3. The clients are not being worried continuously educating new men, but, at the same time, there is no tendency for staleness to develop on the part of the auditor, since there is an automatic steady progression throughout the office.

4. By grading the men quite definitely there is something for them to aim at and a ready means of recognition of their ability is available.

5. Particularly where the seniors' committee is utilized, I think that much is gained in that the seniors think rather more in terms of the firm and less personally. I think, moreover, that it is most valuable to have a committee that can bring to the partners' attention any minor grievances or suggestions for improvements in the firm's policy, the discussion of which may be to its best interests.

The statutory audit, bankruptcies, liquidations, trusts and similar work will probably come to accountants in time in this country as the profession develops standing in the lay mind; and this thought of professional development brings me to the question that interests me most in a comparison of practice in the two countries.

Let us consider for a minute what we are really looking for in our profession. I think if I have been able to paint the picture I have wanted to paint of the profession in England, that picture would be readily reconcilable with one of the profession as you would like to see it here.

The professional accountant there is essentially a man of good type, one who can meet his clients at least as an equal and who enjoys their personal respect and confidence. His advice is considered sound, trustworthy and conservative and his signature is regarded as the hall-mark of correctness and integrity. Above all, these qualities attach to him in the eyes of the public and the business world, and it has been of interest to note how many chartered accountants are now offered seats on the boards of the principal companies purely for the stability and prestige which will accrue from their inclusion.

To this situation I think four main factors contribute:

1. The standard of the accountant's work is of high quality.
2. The profession is disciplined.
3. The profession is composed of men of the right type.
4. The business public has learned to associate these qualities with men having the degrees of certain bodies.

The second of these, discipline, is a minor factor and arises out of the others. The education of the business public, too, grows automatically as certain bodies adopt and let it be known that

they have adopted the two principal factors—standard of work and type of man. These, it seems to me, are the very keystones of any profession.

So far as the standard of work is concerned, I believe the better accountants here give their clients as much, if not more, than those in England, and I can not avoid the conclusion that the tremendous difference between the standing of the profession here and there arises almost entirely from the third factor I have named—the type of man. Let me make it quite clear that I am talking of the profession at large here and quite definitely not of this Institute.

This Institute has, undoubtedly, the right type of membership and, left as it is at present and with, I think, the use of some short title by which its members might be more readily recognizable to the public, I do not see how it can fail to do all that the chartered accountants have done in England. One thing stands in its way, however. As it develops prestige its membership will become more valued and as it does so, nothing at present in its by-laws can prevent the invasion of its ranks by people capable of meeting its requirements and passing its examinations but devoid of the personal qualities so necessary in the profession. These must eventually bring it into disrepute. In other words, its increasing strength will invite increasing weakness.

I think it is essential that, if you are to make this body the standard bearer of the profession, you must sooner or later consider not only your applicant's technical qualifications, not only his ability to pass your examinations, but also, perhaps above all, his desirability and suitability as a member of this fine profession.

Let us look for a moment at a few of the qualities we are seeking. I do not think any of you will dispute the need for the following:

1. Good sound education, not only practical, but also academic—not only that obtained scholastically, but, more important still, that obtained through environment, either in a good home or amongst a sound circle of friends.
2. Breadth and clarity of vision.
3. Individuality in thought, not, of course, to the extent of eccentricity, but rather coupled with and balanced by our next quality—conservatism.

4. Conservatism not only in thought, but also in such matters as speech and dress.

5. Personal likability. While I agree that you could not exclude a man for lack of this quality, its presence adds tremendously to his professional value.

6. Patience and good temper. I do not need to explain to any of you what exercise these two get in the profession.

7. High mindedness and moral purpose.

8. Sincerity.

I could add more, but will, instead, refer you to your own colleges where you will find fine young men endowed with these qualities and others. If only we can make the profession and the Institute sufficiently attractive to these, we need have no fears for its future.

You will next ask, perhaps, "By what method is this desirability to be measured?" Examination of type by personal interview would be manifestly unfair and inconclusive. Recommendation solely by persons outside the profession would be equally unsatisfactory. A monetary distinction would be unthinkable.

I am going, later on, to suggest a plan. Its aim is to provide a method for appraising a man's desirability through sponsorship by existing members. In some of its features it does resemble the article system, but since I know that to many of you that system does imply a monetary distinction, I have purposely refrained from using that term.

I am sure that it is no coincidence that those bodies in Great Britain which do have this article system really represent, not only ours, but most other professions there, and I feel convinced that the method she has learned to be the best in the development of her professions must follow here eventually in substantially the same form. None of the professions here appears to have the standing it should enjoy, and I do not see any reason why ours should not show the way. I do see every reason why the American Institute should lead our profession, for its ideals and the men behind it are fundamentally sound.

Please do not think that what I am about to propose is any hurried suggestion. It is the result of much thought and many interesting talks on the subject. It should not be dismissed as something all very well for England but impracticable here, for I

have modified it to meet conditions here even as my own insular ideas have been modified and broadened by my experiences in this country.

Do you not think the adoption of a plan and rules similar to the following would achieve the effect I have outlined?

1. Admission into the Institute after some future fixed date to be restricted to members' clerks registered as such at the Institute.
2. Each practising member of the Institute to be allowed, say, two registered clerks.
3. In order not to restrict growth to too great an extent it might be advisable to permit members of the Institute, not in practice for themselves but employed by other members of the Institute, to have, say, one registered clerk.
4. No person to be registered who shall not have a preliminary education of a standard acceptable to the Institute.
5. Registration to be for a period of five years, with the possible provision that a college graduate of recognized standing should be permitted a three-year registration period and I might even suggest that a man bearing a certified public accountant's degree of acceptable standard be permitted a one-year registration.
6. No registered clerk to be admitted without a certificate from the member to whom he has been registered as to the adequacy of his experience and his fitness for the profession.
7. Holders of acceptable C. P. A. degrees, at the date of inauguration of the system, to be permitted to apply for membership within, say, one year, but their applications to be sponsored by two members of the Institute.
8. Persons who shall have been engaged in public accounting for, say, ten years, to be permitted to sit for the examinations and obtain membership provided that they obtain the sponsorship of, say, two or three members of the Institute, that at least a fixed amount of their experience shall have been gained with members of the Institute and that they shall be employed with members at the time of their application.
9. A record to be kept of members to whom clerks are registered and by whom applicants are sponsored, and against these members to be recorded any unprofessional or unethical acts on the part of those so sponsored either before or after these men become members of the Institute. If more than a certain number of counts are registered against any member, that member to be denied the privileges of having registered clerks and

sponsoring applicants. Further disciplinary penalties might, of course, be imposed.

At this point I want to explain how the misconception arises which leads to the linking of the article system and a monetary distinction. When the article system was originally introduced in England it was somewhat similar to the above. The payment of premiums and the service without remuneration developed purely through the operation of the law of supply and demand, and are the strongest possible indications of the success that the system met with in its attempt to make its membership desirable. Should it meet with similar success here, and I see every reason why it should, your national disinclination to have this apparent monetary distinction could always be satisfied by the Institute through an increase in the number of registered men allowed each member.

Here are some of the advantages which I can see accruing from the adoption of such a plan, of which I have, of course, given only the broadest outline:

1. The automatic restriction of membership will attract acceptable C. P. A.'s and thus strengthen the Institute with members of the right type.
2. Registrations and sponsorships will become increasingly valuable, and as they do the existing members of the Institute will be more and more able to choose the men whom they are accepting as future members of their profession.
3. Careful selection will be forced upon the members of the Institute owing to the provision under which the privileges of registration and sponsorship may be curtailed.
4. The Institute will, as its degree becomes more valuable, develop more and more discipline over its members through its ability to suspend them for unethical conduct.
5. Perhaps one of the greatest advantages would be that arising outside the profession as the adoption of this scheme became known. It could not fail to impress bankers and the more conservative clients with whom we work and would, I believe, be a tremendous factor in the development of such steps as the statutory audit were it known that a body existed which had the disciplinary control which the exclusiveness of its membership would confer upon it. Incidentally, I see no reason why the Institute should not embark on a very

definite policy of advertising in its members' behalf in conjunction with the plan outlined.

6. From the practitioner's point of view, quite apart from the additional prestige he would acquire, it would be of great value to have on his staff men who would give tone to office and who would spread the high professional idea.
7. From the student's point of view there is everything to be gained. He gets a practical training which no amount of money could purchase at any business college. In addition, he knows that when he has worked and finally qualified, the degree he has will have a definite standing and will improve rather than diminish in value. The plan and all it offers to the student could be used as excellent material by those officers of the Institute who visit the colleges to obtain potential members. It could not fail to appeal to those now at college who see all the old avenues—real estate, bonds, insurance, etc.—hopelessly overcrowded and overrated, and who are looking for something more stable as a career.
8. The man who becomes a registered clerk immediately feels that he has entered a profession and begins to develop a professional spirit and outlook. This, I think, will have the same advantage as that accruing through the students' society in that these men, fresh from college, will gradually disseminate the professional idea through their friends still there.

I have, as I have stated before, given only an outline of what I think might be done here. Minor flaws may be apparent to some of you, but I feel confident that these could be eliminated and that there is everything to be gained from the adoption of such a plan.

I feel that, even should this particular solution not appeal to you, the Institute's and the profession's futures do deserve the most serious, broad-minded and far-sighted consideration, and that the time is opportune for the appointment of a small but energetic committee to take this far-sighted view in an intensive study of professional conditions, practices and trends not only in this country but in those that have had perhaps longer, if not more, experience than we have here.